Monthly Report for November 2009

Fund manager's strategy report

USA - Is it really time to say goodbye?

In this month's report, I'd like to once again broach the topic of the USA. Practically everyone on earth has his or her opinion about the country, whether in regard to economics, politics or culture. Opinions can be positive or even downright negative, but certainly not neutral.

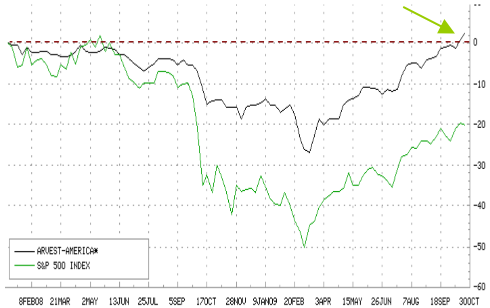
For some time now, Swiss private bank Wegelin has branded itself as a major skeptic. The headline of its August investment report, "Farewell to America", unmistakably illustrates the point. According to Wegelin, the US economy is finished, making investments in US securities inadvisable for numerous reasons (including the inheritance tax). Eight pages later, Konrad Hummler ends his diatribe, in which he apparently goes so far as to compare the United States with the Sicilian mafia, with a final call: "It's time to say goodbye."

To be unaware of the economic difficulties faced by the US, you would literally have to be living under a rock, with practically no contact to the outside world (like in Plato's allegory of the cave). However, instead of throwing the baby out with the bathwater like Hummler (although I do have to agree with many of his statements), the situation calls for a different, but no less critical approach. He who completely writes off the world's most important economy based on a highly emotional outlook will have a hard time adequately judging its economic interdependence with the world's other economic centers and translating this knowledge into profitable investment decisions. After all, the current economic crisis should have made it clear that the world has been reduced, and not just economically speaking, to a village. Hummler fails to emphasize that the risks posed by the US cannot be eliminated through the sale of US securities alone. In fact, one would also have to avoid countless Asian companies that directly or indirectly generate a relevant portion of their sales via the US, not to mention currencies that are directly or indirectly tied to the US dollar, among other factors. This doesn't exactly leave many options in terms of investment alternatives.

Part of our job as asset managers is to deal with risks. It is especially important to always view risks in relation to their associated opportunities. If the opportunities are high, they may well be worth the risk to a certain degree. Personally, I have never found the concept of playing the lottery appealing, as in my view the risk of losing (irrespective of the amount wagered) is disproportionately high in relation to the chance of winning. Instead, at the age of 23 I bought my first shares of stock.

All losses regained

Below I'd like to show how, despite the risks of US investments, the ARVEST America Stars Fund has been able to shield investors from losses. One reason is that all ARVEST stock funds generally feature an additional protection option not found in many other funds or in any ETFs. ARVEST stock funds allow investors to temporarily reduce its stock quota in order to lower market risk. Due to the pessimistic outlook of the ARVEST investment committee, in early 2008 just over 40% of ARVEST America Stars consisted of stocks. Within this 40%, the fund was largely invested in solid, defensively-positioned companies from the consumer staples and health care sectors, where sales are known to be less vulnerable to recessions. I also sold all shares in financial sector companies, as I found the risks at this time in the entire industry nearly impossible to estimate and therefore I was not able to adequately weigh the risks and opportunities of financial securities.



Thus, I attempted to utilize not only my experience and knowledge of the stock market to help make the fund profitable, but my *lack* of knowledge as well. As the humorist Henry Wheeler Shaw said over 150 years ago: "It is better to know nothing than to know what ain't so." Currently, although the fund remains quite defensively positioned, I nevertheless increased the stock quota to over 75%, as in spite of known difficulties, a country like the US still offers very interesting investment opportunities.

As a result, ARVEST America Stars (black line in the graph) recently recouped all its losses since early 2008, while its benchmark index, the S&P 500, despite a massive price rally since March of 2009, remains about 22% behind. I am happy to report that none of our clients who have invested in the America Stars Fund are any longer in the red.

10/30/2009
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